MEETING INFORMATION

ES/MI # 102

2 February 1982

MEMORANDUM FOR: See Distribution

SUBJECT : Meetings

Type of Meeting	: NSC (Combining the two meetings originally scheduled for Thursday & Friday)
Date	: Thursday, 4 February 1982
Time	: 3:30-5:30
Place	: Cabinet Room
Chaired By	: President
Principal Only?	: Yes
Subject/Agenda	: 1) Poland and 2) Libya
When to Expect Papers	: Possibly tomorrow we will receive a more detailed agenda per Carol Cleveland.
Time Info Received	: 1615 from NSC Staff

Chris

Distribution:
- O/DCI (Doris)
- O/DDCI (Eleanor)
- EXDIR
- DDI (Sherry)
- Chm/NIC (Lynn)
- DDO (Marge/Doris)
- SA/IA [redacted]
- OCO/SOO
- ES
- D/ES

25X1

ES/MI # 102

2 February 1982

MEMORANDUM FOR: See Distribution

SUBJECT : Meetings

Type of Meeting : NSC (Combining the two meetings originally scheduled for Thursday & Friday)

Date : Thursday, 4 February 1982

Time : 3:30-5:30

Place : Cabinet Room

Chaired By : President

Principal Only? : Yes

Subject/Agenda : 1) Poland and 2) Libya

When to Expect Papers: Possibly tomorrow we will receive a more detailed agenda per Carol Cleveland.

Time Info Received : 1615 from NSC Staff

Chris

Distribution:
- O/DCI (Doris)
- O/DDCI (Eleanor)
- EXDIR
- DDI (Sherry)
- Chm/NIC (Lynn)
- DDO (Marge/Doris)
- SA/IA
- OCO/SOO
- ES
- D/ES

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

[redacted] 25X1

3 February 1982

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM : [redacted] 25X1
Acting National Intelligence Officer for USSR-EE

SUBJECT : Tomorrow's NSC Meeting [redacted] 25X1

1. Tomorrow's NSC meeting will deal with the extra-territoriality issue involved in sanctions against the USSR as these affect the Yamal pipeline (see Tab A). The meeting will probably also touch upon broader questions of West European reactions and Soviet options in case of a firm U.S. position. (see Tab H)

2. At the SIG on Friday it became apparent that the Office of the Vice President and all agencies except State held that the December 30, 1981 sanctions should apply not only to exports from the U.S. but also to equipment made by foreign subsidiaries of U.S. firms and by licensees. The issue of making an exception for controlled GE components already shipped or for the fulfillment of existing contracts or letters of intent has arisen particularly in the case of the UK where the estimated losses and layoffs are held to be especially painful. The arguments pro and con are summarized on pp. 1-2 of the NSC paper at Tab B. The main argument for application of the sanctions to subsidiaries and licensees is that without this the sanctions would be ineffective in slowing or stopping development of the pipeline. The basic argument against is that the political cost in terms of strained relations with our allies would be too great. ~~[See Tab C for contracts signed.]~~

3. The legal issues at stake are discussed in an attachment to ~~Tab B~~ the NSC paper. The thrust of the opinion here is that the Administration's authority to take some of the actions contemplated would be tenuous, that some steps might be successfully countered in the U.S. courts, and that West European governments if they so wished could take legal action that would block the U.S. or escalate matters into a major confrontation within the Atlantic Alliance.

Regrade to SECRET [redacted] when separated from attachments

TOP SECRET

[redacted] 25X1 25X1

4. There is also the danger that tough U.S. actions could affect negatively a developing West European mood in favor of firmer steps against the USSR over Poland. If the West Europeans came to believe that the U.S. was using the Polish crisis in order to achieve a goal it had not been able to reach earlier by diplomacy, namely to block the pipeline, they would probably become even more resistant on this issue and less forthcoming on other possible sanctions. This danger underlines the need to handle the issue with finesse and sensitivity.

5. If we were to force the issue with an expanded embargo, our analysts believe that the West Europeans could come up with their own replacement for the embargoed GE equipment and for the computerized control system--if the Soviets provided sufficient incentives and Western governments went along. This might delay completion of the pipeline, but by no more than a year or so. ~~[See Tabs D and E.]~~

6. Alternatively, the Soviets might rearrange their priorities and shift some of their substantial domestic compressor capacity to Yamal or an alternative line at the expense of delaying domestic gas availability. Because Yamal will apparently take only 12% of planned added compressor capacity in the 1981-85 time period (3050 MW out of 25,400), this appears feasible although with a loss of efficiency and perhaps some delay. ~~[See Tab D.]~~ However, the Soviets might be able to start gas exports from Urengoy in Siberia before the completion of Yamal by adding a segment to a new "domestic" line being built from Urengoy to Novopskov. This line might be extended to, and through, Czechoslovakia by 1984-85. ~~[See Tab F.]~~

7. Although it appears possible for the Soviets to complete Yamal by themselves with some delay or even to export gas early via a non-Yamal route, the denial of U.S. technology would nonetheless be costly to the Soviets. By slipping, say, two of the 56" pipelines, Moscow would delay the availability to the domestic economy of the equivalent of about 500,000 barrels of oil, about 2% of total energy consumption. Since domestic gas can be and probably is largely intended to replace oil, this gas delay could deprive the Soviets of around $5 billion in oil hard-currency earnings.

8. In short, although we cannot be confident that our sanctions would delay Yamal or a substitute for it, there is a good chance that if the West Europeans honored an expanded U.S. embargo and did not supply substitute equipment and controls, this would do one of the following: (a) delay the export of gas capable of earning about $5 billion a year; or (b) delay the availability of gas to the Soviet economy, thus forcing the Soviets either to make do with less energy, or forego the export of that oil which would otherwise be replaced by domestic gas.

SUBJECT: Tomorrow's NSC Meeting 25X1

9. You are well aware of the importance of Western credits for the Yamal pipeline, and of the line's eventual capacity to earn hard currency. This factor becomes even more significant when viewed against the USSR's current hard-currency bind. To improve their liquidity somewhat the Soviets have sold off about 50 tons of gold in the first two weeks of this year--about one-fourth of all the gold they sold in 1981 and about one half of what they sold in 1980. They have also stepped up their short-term borrowing. These palliatives do not eliminate the longer-term problem: how to pay for an import bill which has gone up from $2.2 billion in 1970 to $31.3 billion in 1981 and which is likely to increase further. So far the Soviets have relied primarily on their oil sales and credits to increase their hard-currency purchasing capability. The projected decline in Soviet oil production and probable limits to future borrowing underline the Soviet need for the Yamal pipeline--the only significant new source of hard currency in the offing. (See Tab G.)

10. These short-run and long-term hard-currency needs combined with the high opportunity costs of an export pipeline built by the Soviets themselves strongly suggest that the Soviets will do what they can to keep the Yamal deal as currently arranged--low-interest Western credits paying for Western materiel to create a Soviet hard-currency earning capability of about $5 billion a year. Unfortunately, there is no way in which the U.S. can singlehandedly deal the pipeline a fatal blow. In my opinion, the real issue for the NSC is how to create a climate in which West European governments, private companies and banks come to see the entire deal as an increasingly dubious proposition--an outlook that could be strongly reinforced by new repressive actions or violence in Poland. Doubts about the wisdom of the deal have already surfaced in Europe. The Italians, for instance, have been talking about a pause for reconsideration. So far none of these doubts have been followed by decisions against participation. Yet, U.S. arguments have not fallen on completely deaf ears. The problem for the U.S. now is how to give these budding European second thoughts a dynamic of their own. I believe that all U.S. pipeline policy decisions should be seen from that perspective.

25X1

Attachments:

All portions of this memorandum
are classified SECRET 25X1

TOP SECRET

MEMORANDUM FOR: The DDI

From: Director SOVA

The attached is in response to your request of 21 January 1982. It has been coordinated with the Office of Global Issues.

[redacted] 25X1

for D/SOVA)

Date 21 January 1982

FORM 5-75 101 USE PREVIOUS EDITIONS